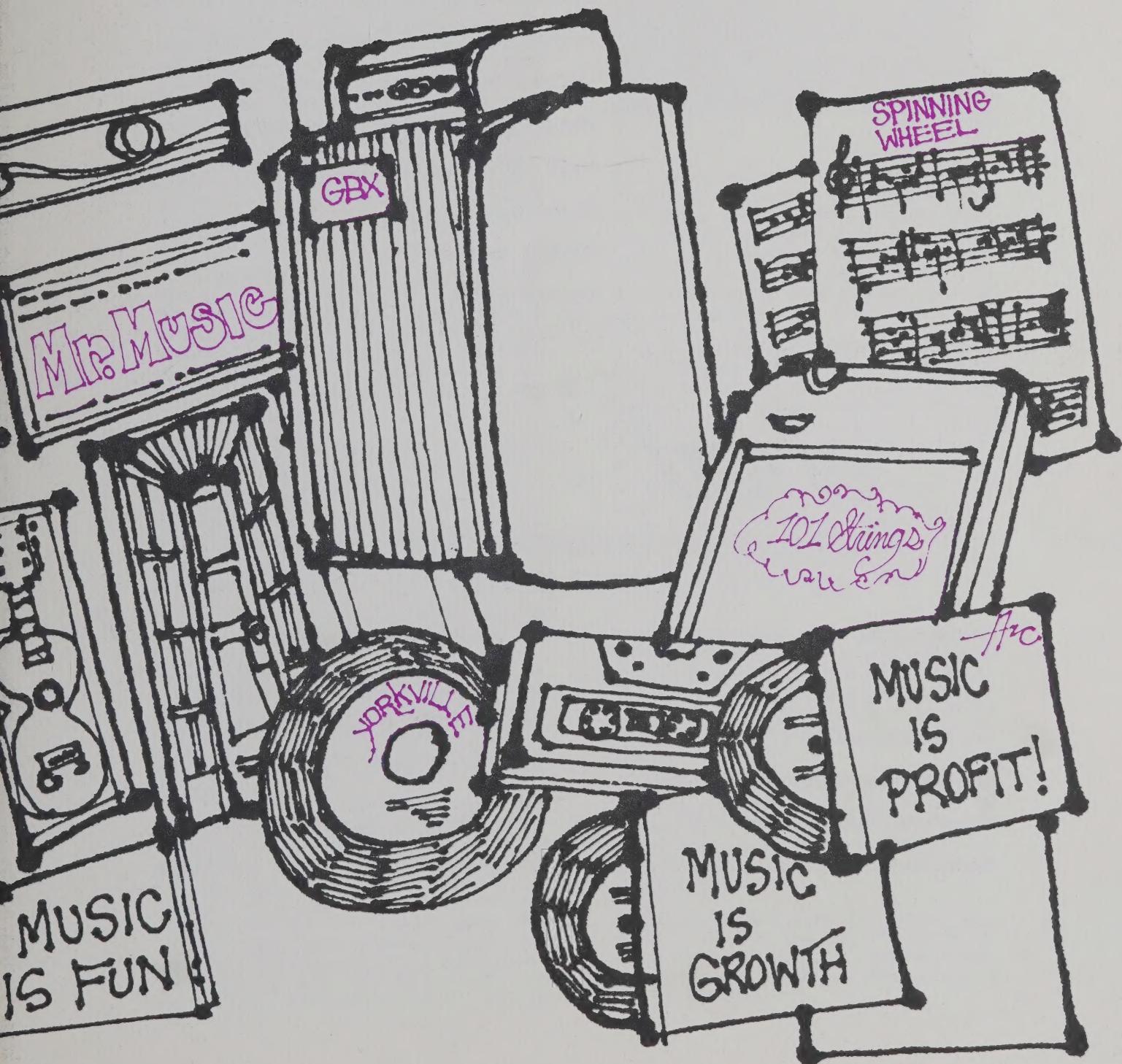


AR05

ANNUAL REPORT 1969



ARC HOME ENTERTAINMENT DIVERSIFIED LIMITED



... Your Company and Music

Music is many things.

It is the efflorescence of life . . .

It is the universal language of mankind . . .

To Shakespeare music was the food of love . . .

To Carlyle — the speech of angels.

Music is the life-blood of your company.

AHED's involvement in music is total.

Music is fun . . .

Music is rapid growth . . .

Music is profit.



ARC HOME ENTERTAINMENT DIVERSIFIED LIMITED (AHED)

SUBSIDIARIES

Arc Sound Limited

Arc Records Limited

Precision Record Productions Limited

Bay Music Company Limited

Canint Music Corporation Limited

HIGHLIGHTS FOR YEAR ENDED

NOVEMBER 30, 1969

Net earnings	\$ 90,095
Earnings per share	11.3c
Funds generated from operations	\$ 135,469
Working capital	\$1,015,503

REPORT TO THE SHAREHOLDERS:

I am pleased to present the first annual report of Arc Home Entertainment Diversified Limited (AHED). While 1969 was another successful year for your company, it was essentially a period of consolidation. The most important event in AHED's corporate life was the decision to amalgamate the Arc group of companies into the AHED family and to make the transition from a private to a public-owned corporation.

Total sales during the twelve-month period ending November 30, 1969, amounted to \$3,658,168, while profits after taxes rose to \$90,095 — both new records for AHED. Net income before taxes was \$153,910. Due to a consolidation of subsidiaries and a change in the date of the fiscal year-end, these figures are not comparable with the previous year. Working capital as of November 30, 1969, was \$1,015,503, an amount sufficient to finance our current programs.

To generate greater profit for the AHED record and tape division, we are now utilizing the facilities of full line wholesalers to provide more effective service in this specialized field. We feel that this marketing re-orientation should substantially contribute to the profitability of these two particular lines.

Our first release of 8 track stereo cartridges and stereo cassette tapes was made in February of this year. I am pleased to report that initial buyer response, especially to our "Touch and Buy" sales approach, has been excellent. This favourable reaction has reinforced our confidence in the earnings potential of this division.

In the area of master record production we are continuing with our intensive and highly selective search for individual artists and groups which could be developed to international stardom. Currently, we are assessing the potential of several talented young performers and musicians and are following closely the trends and developments in all areas of the entertainment business.

As anticipated, sales and profits in the musical instrument division continue to grow. This division shows great potential for the future. We expect growth in this division at a rate of about 30-40% per annum over the next several years. Our relations with international export agencies and manufacturers have been substantially strengthened and diversified during the year. Your directors anticipate that the



musical instrument division will gradually contribute increasingly to AHED's sales and profits. Our confidence is based upon the growing popularity of musical instruments as a means of individual self-expression and the increases in disposable income and leisure time available to virtually all segments of our population.

As of April 15, your company has launched AHED National Franchises to become a wholly-owned subsidiary created to develop the "Mr. Music" franchise concept. This entails the establishment of Mr. Music instrument stores in strategic locations across the country. Through this newly-created division your management proposes to maximize its share of the Canadian musical instrument market. We feel that as the Mr. Music franchise operations are established they will become an important component of the AHED organization.

Our GBX electric guitar and bass amplifier is gaining acceptance with musicians. During the current year we plan to broaden this line and will be offering a complete range of amplification equipment to satisfy even the most demanding contemporary musicians.

You will be pleased to know that AHED's high-performance public address system (PA) is ready for production. Demand for such equipment is strong and is anticipated to exceed available supply for some time.

Custom record production orders continue to rise. At the present rate of demand our record pressing capacity is likely to be completely sold out for the balance of the current year.

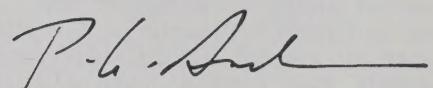
During the past six months your management has studied several corporate acquisition opportunities. While some are still under consideration we have completed the purchase of Drum Village, in Vancouver, B.C., considered by international drum suppliers as the most progressive and successful drum retailer in Canada. This acquisition will enhance AHED's competitive position in this specialized market. It is intended to use Drum Village as an integral and complementary part of the Mr. Music franchise project and to open other Drum Village outlets in major Canadian cities.

I would bring to your attention your directors' plan to change the company's corporate name to AHED Music Corporation Ltd., in order to more clearly identify the nature of our activities and to emphasize our total involvement in this area of the burgeoning leisure time industry. A list-

ing of AHED shares on a major stock exchange is also contemplated. We shall keep you informed of these and other developments as they occur.

On behalf of the Board of Directors, I wish to express to shareholders the company's appreciation for their continued support and confidence. I also wish to acknowledge the contribution of all employees to the success of the company. Together, we look forward to 1970 as a year of promise, increasing profitability and growth.

On behalf of the Board,



Phil G. Anderson,
President.

May 1, 1970.

PLANNING FOR GROWTH

Music, in terms of records, pre-recorded tapes and musical instruments, is a highly significant section of the total leisure market, which is nearing the \$150-billion-a-year mark in North America. Market analysts predict that in the next few years, sales of musical instruments alone will probably exceed the growth rate of the entire leisure market. No fewer than 44 million North Americans play a musical instrument of one kind or another. Amateurs alone own 37 million instruments.

During the past 20 years, musical instrument sales have almost quadrupled. Trends indicate that in the next five years sales will further increase by an estimated 50 per cent. This is our business.

Entertaining at home will continue to be a major form of recreation, and this specific form of recreation cannot fail to reflect very significantly on sales of musical instruments, records and tapes. This, too, is our business.

As to records and tapes, it is part of our long-term policy to become a self-contained, self-sufficient producer of master recordings for use on all types of mechanical playback equipment.

This policy includes the development of our own recording artists and personal management of these artists; as well as music copyrights. In this way it is felt that we can secure maximum growth and profit potential, through our own master recordings.

This can be accomplished by finding and developing even one artist, or group, which will attain international acceptance. Admittedly, it is a speculative venture, but the rewards can be enormous. But this is one phase only of our long term policy. Diversification is another.

AHED has expanded into several potential fast-growth areas within the music industry. We are familiar not only with master record production, but also with record and tape manufacturing and distribution, music publishing, artist management, musical instrument wholesaling, retailing and franchising, and the manufacture of electronic music amplifier systems. We are confident that from one or more of these areas will come further acceleration of profitable growth.

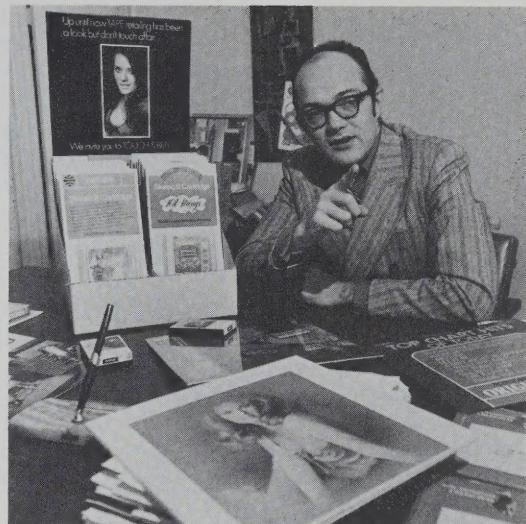
RECORD AND TAPE DISTRIBUTION

Our record and tape sales, paralleling the national trend, continue to grow. Under the direction of Bill Gilliland, Garnet Armstrong—National Sales Manager Records and Tapes, is developing sales of our catalogue of standard master recordings of both stereo records and stereo tape cartridges and cassettes.

Early in 1970 we introduced our first release of 48 titles on cartridges and cassette tapes. At the same time we introduced a new concept in tape merchandising and packaging—a "blister" card pack.

Sales results to date have been most gratifying.

As to tape production, we already own or control an extensive catalogue of master recordings on which production costs have been completely amortized. As a result we anticipate this area will be profitable right from the initial production run. Most of our masters are in the "middle of the road" music area, and well suited to current consumer demand.



The industry's prediction is that record sales will continue to increase in dollar volume for the next three to five years, despite rapidly increasing tape sales.

MASTER RECORD PRODUCTION AND MUSIC PUBLISHING



Record sales in North America continue to increase at an unusually rapid pace. In 1968 more than \$1.1 billion worth of records were sold at retail. Tape cartridges and cassettes sold to the tune of \$250 million. Sales figures for 1970 are expected to show an increase of 15 per cent in records and 35 per cent in tapes.

This is not altogether surprising when it is considered that a single artist can produce more than \$1 million in record profits and management commissions in a year.

As an example, one of our David Clayton Thomas copyrights, a song called "Spinning Wheel", was the most recorded song of 1969 according to Billboard, the leading U.S. record industry trade paper. "Spinning Wheel", initially recorded by "Blood, Sweat and Tears", has since been recorded by at least 71 artists throughout the world.

During the current year and the next few years, we anticipate substantial income from "Spinning Wheel", and from other David Clayton Thomas material and performances.

In January 1970 we initiated a total re-organization of our production department. During March we launched a brand new group named "The Inner City Mission". Their first release, a song called "GET BACK JOHN", is already a nation-wide hit, with U.S. and U.K. release arrangements in the final stages of completion.

"The Inner City Mission" is produced by two of our talented staff writer-producers, and "Get Back John" was written by them. We are optimistic that the group will become one of the first Canadian-produced groups to gain wide popularity on the international record scene.

"The Inner City Mission" could well become the solid income producer—(from management income, domestic record and tape sales, foreign royalties on master lease agreements and copyright royalties)—for which we have been searching.

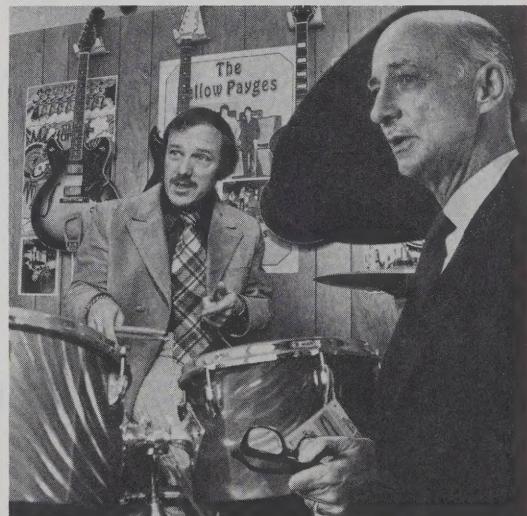
Our ability to recognize and develop talent, such as David Clayton Thomas and "The Inner City Mission", will, in our

opinion, result in substantial profits for AHED.

This "talent development" division is headed by Bill Gilliland, a director and vice-president of the company, who is continually auditioning and working with singers, writers and groups. We are confident that we shall find other performers of international calibre.

MUSICAL INSTRUMENT DIVISION

The musical instrument wholesale division of AHED has developed to the point where the company is now the second largest in Canada-wide sales. Under the direction of Tom Shilstra, vice-president, and Ray Gray, National Sales Manager, sales volume has increased from a modest \$125,000 in 1964 to an anticipated \$2,500,000 for the current fiscal year. We have a well-trained and organized staff across Canada to keep abreast of this growing profitable market.



AHED NATIONAL FRANCHISES



A great many areas in Canada do not have adequate music retail outlets. Through our Mr. Music franchising plan we intend to rectify this situation. Gordon Reid has

recently assumed responsibility for developing a system whereby interested persons are shown how to make money through retailing musical instruments under our Mr. Music franchise. The first Mr. Music store is now operating successfully in the Yorkville area of Toronto and we plan to open franchise stores in 10 other locations by early fall. In conjunction with our Mr. Music project, we have recently completed the purchase of Drum Village, Canada's largest exclusive drum specialist. We intend to franchise Drum Village outlets in major cities across Canada.

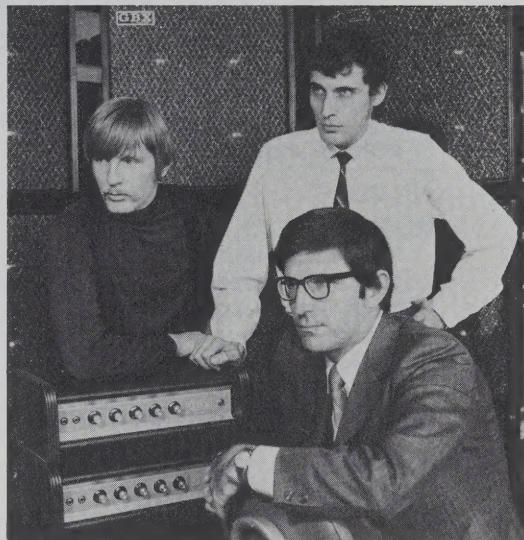
Drums and percussion instruments are specialty items requiring different merchandising techniques than those required for other musical instruments. Drums are an essential part of the contemporary music scene, and there is widespread interest in this particular type of instrument. Due to this interest, we are confident of substantial growth in this franchise area.

ELECTRONIC MUSIC AMPLIFIER DIVISION

In order to satisfy a demand for competitively-priced solid state guitar and bass guitar amplifiers, we engaged in 1968 two talented people, Jim Garrett and Adrian Ball, to develop these components. The result was our highly successful GBX line of amplifiers.

The GBX line has found ready acceptance among contemporary musicians and groups and retailers both in Canada and the United States. Initial sales have reflected this acceptance.

Recently Bill Carrigan joined the division to head marketing and development. New models, including a new concept vocal and music PA system, are currently in the pre-production stage. Based on our past experience with the line, we anticipate this year a ten-fold increase in sales of the GBX electronic division as compared to last year.



PRECISION RECORD PRODUCTIONS



In addition to pressing records to meet the requirements of Arc Sound Ltd., Precision has recently launched a program to develop custom production business. A comparatively new market for custom record pressing has been created in connection with the recent establishment in Canada of more subsidiary operations by British and U.S. recording companies. With increasing volume, this can be a sound profit area.

Indications are that this market situation will result in our production facilities running at a full capacity for the remainder of this fiscal year. These facilities could be expanded rapidly to meet further increased demand. Jack Anderson keeps a careful watch on quality and costs in Precision Record Productions Ltd.

ARC HOME ENTERTAINMENT DIVERSIFIED LIMITED (AHED)

CONSOLIDATED BALANCE SHEET AS AT 30 NOVEMBER, 1969

CURRENT ASSETS

Cash on hand and in bank.....	\$ 8,766
Accounts receivable.....	1,026,204
Inventories, at lower of cost and net realizable value.....	832,860
Prepaid expenses and deposits.....	21,197
	<hr/>
	1,889,027
FIXED ASSETS, at cost	
Machinery and equipment.....	283,362
Office equipment.....	38,357
Automotive equipment.....	18,324
Leasehold improvements.....	16,754
	<hr/>
	356,797
Less accumulated depreciation.....	224,376
	<hr/>
	132,421
OTHER ASSETS, at cost	
Goodwill and trade names.....	25,290
Incorporation expenses.....	1,160
Cost of public financing less portion amortized.....	21,450
	<hr/>
	47,900
	<hr/>
	\$2,069,348
	<hr/>

CURRENT LIABILITIES

Bank indebtedness — Note 2.....	\$ 310,630
Accounts payable and accrued liabilities.....	447,202
Taxes withheld.....	9,810
Long term debt, due within one year.....	31,423
Income taxes payable.....	74,459
	<hr/>
	873,524
LONG TERM DEBT — Note 3.....	56,240
DEFERRED INCOME TAXES.....	5,688
	<hr/>
	935,452

SHAREHOLDERS' EQUITY

Capital	
Authorized	
1,500,000 shares without par value	
Issued and fully paid	
800,000 shares — Note 4.....	1,043,801
Retained Earnings.....	90,095
	<hr/>
	1,133,896
	<hr/>
	\$2,069,348
	<hr/>

AUDITORS' REPORT

TO THE SHAREHOLDERS:

We have examined the consolidated balance sheet of Arc Home Entertainment Diversified Limited and subsidiary companies as at 30 November, 1969 and the consolidated statements of operations and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at 30 November, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles.

Approved on behalf of the Board.

P. G. ANDERSON
Director

W. R. GILLILAND
Director

Toronto, Ontario,
19 February, 1970.

DUNWOODY & COMPANY,
Chartered Accountants.

ARC HOME ENTERTAINMENT DIVERSIFIED LIMITED (AHED)

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS FOR THE YEAR ENDED 30 NOVEMBER, 1969

SALES	\$3,658,168
COST OF SALES	1,999,017
	<hr/>
	1,659,151
 EXPENSES	
Selling, general and administrative	1,469,181
Depreciation	36,060
	<hr/>
	1,505,241
INCOME BEFORE INCOME TAXES	153,910
INCOME TAXES	63,815
	<hr/>
NET INCOME FOR THE YEAR	90,095
RETAINED EARNINGS, BEGINNING OF YEAR	—
	<hr/>
RETAINED EARNINGS, END OF YEAR	\$ 90,095
	<hr/>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 30 NOVEMBER, 1969

SOURCE OF FUNDS

Net income for the year	\$ 90,095
Expenses not requiring an outlay of funds—	
Depreciation	36,060
Amortization of engineering and prototype costs	6,931
Amortization of cost of public financing	2,383
	<hr/>
FUND PROVIDED FROM OPERATIONS	135,469
Cash proceeds on sale of shares	504,625
Working capital acquired from subsidiaries	474,070
	<hr/>
	1,114,164

APPLICATION OF FUNDS

Purchase of fixed assets—	
Machinery and equipment	25,077
Office equipment	2,866
Leasehold improvements	602
	<hr/>
	28,545
Cost of public financing	23,833
Increase in current portion of long term debt	13,423
Reduction of long term debt	18,501
Reduction of deferred income taxes	2,134
Redemption of preference shares	10,680
Other	1,545
	<hr/>
	98,661
WORKING CAPITAL, END OF YEAR	\$1,015,503
	<hr/>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT 30 NOVEMBER, 1969

Note 1—COMPANIES INCLUDED

The consolidated balance sheet includes the accounts of the company and its wholly owned subsidiaries, Arc Sound Limited, Arc Records Limited, Precision Record Productions Limited, Canint Music Corporation Limited and Bay Music Co. Limited.

Note 2—Book debts and manufacturing inventories of the AHED companies are pledged as security for bank indebtedness together with floating charge debentures to the aggregate amount of \$600,000.

Note 3—LONG TERM DEBT IS AS FOLLOWS:

Chattel Mortgage	\$23,772
Directors' and shareholders' loans.....	57,441
Other loans	6,450
	<hr/>
	87,663
Less current portion.....	31,423
	<hr/>
	\$56,240

Directors' and shareholders' loans are to be repaid in equal amounts on 31 December, 1970 and 31 December, 1971 plus interest at 7%.

The chattel mortgage is on machinery and equipment owned by Precision Record Productions Limited.

Note 4—The 800,000 shares were issued during the year for the following consideration:

175,000 shares for cash at \$2.53 per share.....	\$ 442,750
25,000 shares for cash at \$2.475 per share.....	61,875
600,000 shares in exchange for all of the issued common shares of the subsidiaries as per note 1.....	539,176
<hr/>	
800,000	<hr/>
	\$1,043,801

Note 5—STATUTORY INFORMATION

Amortization of intangible assets for the year amounted to \$9,314. Interest on long term debt for the year amounted to \$7,279. The aggregate direct remuneration paid by the companies to the directors and senior officers (as defined by The Corporation Act) for the year amounted to \$81,142.

DIRECTORS AND OFFICERS

***PHIL G. ANDERSON**—Willowdale
President, AHED and Subsidiaries

KARL E. HAGSTROM—Alvdalen, Sweden
Managing Director, A. B. Albin Hagstrom

WALTER M. BOWEN—Toronto
Partner of legal firm—Blaney, Pasternak, Smela, Eagleson & Watson

***W. R. (BILL) GILLILAND**—Willowdale
Vice-President

***HARRY A. DERDERIAN**—Guelph
Vice-President and Secretary

J. F. A. JURRIUS—Willowdale
Treasurer

***JACK C. ANDERSON**—Scarborough
Vice-President

***U. A. (TOM) SHILSTRA**—Toronto
Director

†**HERMAN HALLER**—Toronto
Comptroller

*Officers.

†Officer Only.

HEAD OFFICE

20 Cranfield Road, Toronto 374, Ontario, Canada

SUBSIDIARIES AND BRANCHES

Arc Sound Limited

20 Cranfield Road, Toronto, Ontario.
322 Drake Street, Vancouver, British Columbia.
19 Keith Road, St. James, Winnipeg, Manitoba.
1485 Laperriere St., Ottawa, Ontario.

Arc Records Limited

20 Cranfield Road, Toronto, Ontario.

Precision Record Productions Ltd.

1 Waterman Ave., Toronto, Ontario.

Bay Music Co. Limited

20 Cranfield Road, Toronto, Ontario.

Bay Recording Studios

5 Waterman Ave., Toronto, Ontario.

Canint Music Corp. Limited

20 Cranfield Road, Toronto, Ontario.

DIVISION HEADS

RECORDS AND TAPES (PRODUCING AND DISTRIBUTION)
W. R. (Bill) Gilliland
Garnet Armstrong—Marketing Manager

MUSICAL INSTRUMENTS
U. A. (Tom) Shilstra, General Manager
Gordon Reid, Asst. General Manager

AHED NATIONAL FRANCHISES
Gordon Reid

ELECTRONIC MUSICAL AMPLIFIERS
Bill Carrigan

RECORD PRODUCTION
Jack Anderson

RECORDING STUDIO
Bill Roncken

MUSIC PUBLISHING
Diane J. Anderson

ADMINISTRATION
Herman Haller

TRANSFER AGENT

International Trust Company, Toronto, Ontario
until May 30, 1970, and thereafter—Canada
Permanent Trust, Toronto, Ontario.

BANKERS

Royal Bank of Canada, Toronto, Ontario.

AUDITORS

Dunwoody & Co., Toronto, Ontario.

Subsidiary companies-
ARC SOUND LTD.
ARC RECORDS LTD.
PRECISION RECORD PRODUCTIONS LTD.
BAY MUSIC COMPANY LTD.
CANINT MUSIC CORPORATION LTD.

MUSIC IS HAPPENING!



is inevitable. If so, our position as established producers of Canadian talent would give us an excellent competitive position.

Musical Instrument Division Growing Rapidly

Within the musical instrument division, we have introduced our new line of professional guitar amplifiers in Canada under the trade name GBX. They have been well received by dealers and more than 150 have been sold in the past three months.

We introduced the line to U.S. dealers at the Chicago Music Trade show in June. The reaction was sufficiently enthusiastic to warrant establishing a full-time representative to develop the U.S. market. We anticipate production in the next year to be between 1,200 and 2,000 units having a list price of \$695 each.

We also acquired a franchise in Canada for Black Diamond strings and Slingerland Drums, two well-established brand products.

We also have arranged an exclusive franchise in Canada for the most modern and technically advanced home organ from the Elka Manufacturing Co., Italy. First deliveries are expected early this fall.

Summary

The results of the past operating year have been quite successful, they show an increase in profits of 41%, without the increased capital acquired through public financing to expand our recording and musical instrument divisions.

As a result of your support and confidence we look forward to even greater growth in the balance of the fiscal year and the next operating year.

Thank you.

Phil G. Anderson,
President.

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ARC HOME ENTERTAINMENT DIVERSIFIED LIMITED

**Interim
Report
To
Shareholders
July 15, 1969**

ARC HOME ENTERTAINMENT DIVERSIFIED LIMITED

INTERIM REPORT TO SHAREHOLDERS

This is the first Interim Report to shareholders from Arc Home Entertainment Diversified Limited and its subsidiaries, Arc Sound Limited, Bay Music Company Limited, Canint Music Corporation Limited, Arc Records Limited and Precision Record Productions Limited.

The purpose of this report is to bring shareholders up to date on our progress and planning subsequent to public financing, and give shareholders a comparison for the twelve months ending April 30, 1969, compared with the previous fiscal year end for the combined subsidiary companies.

A NEW CORPORATE TRADE MARK SYMBOLIZES GOALS

At the top of this report is the new trade mark of Arc Home Entertainment Diversified Limited, namely AHED.

Our plan is for the company to become known as AHED Ltd. Subsidiary companies and divisions will operate under their own name to pursue well-established trade names and trade marks that will be identified as "An AHED Company" or as "An AHED Product".

We believe this name is contemporary, not identified with a particular product or service, and symbolizes our progressive, hard-driving organization.

PROFITS INCREASE 41%

As part of this report, we have included a comparative consolidated profit and loss statement for the twelve months ending April 30, 1968, and 1969, as well as a consolidated balance sheet for the same periods.

We are very pleased to report that earnings on a comparative basis increased from \$76,124 to \$107,478 which represents a 41% increase in profits.

Since our public financing was not completed until the end of March, the increase in sales and profits for the twelve months ending April 30, 1969, was achieved without the benefit of public financing.

ARC HOME ENTERTAINMENT AND SUBSIDIARIES

Combined Condensed Profit and Loss Statement as at April 30, 1968, and 1969

Net Sales
Cost of Sales

GROSS PROFIT
Expenses

NET INCOME
Provision for Income Tax

NET PROFIT

Consolidated Balance Sheet as at April 30, 1968, and 1969

Current Assets
Fixed Assets
Other Assets

TOTAL ASSETS

Current Liabilities
Long-Term Debt
Deferred Income Tax

TOTAL LIABILITIES

SHAREHOLDERS' EQUITY

DIVERSIFIED LIMITED (AHED) COMPANIES

Profit and Loss Statement

April 30, 1969 (Unaudited)

1968	1969
\$3,066,812	\$3,567,205
1,596,137	1,813,983
<hr/>	<hr/>
1,470,675	1,753,222
1,340,548	1,555,908
<hr/>	<hr/>
130,127	197,314
54,003	89,836
<hr/>	<hr/>
\$ 76,124	\$ 107,478
<hr/>	<hr/>

Active Balance Sheets

April 30, 1969 (Unaudited)

1968	1969
\$1,140,760	\$1,464,305
148,416	140,038
25,000	45,000
<hr/>	<hr/>
\$1,314,176	\$1,649,343
<hr/>	<hr/>
\$ 729,816	\$ 486,895
102,358	79,486
9,655	9,655
<hr/>	<hr/>
841,829	576,036
<hr/>	<hr/>
472,347	1,073,307
<hr/>	<hr/>
\$1,314,176	\$1,649,343
<hr/>	<hr/>

The funds provided by public financing allowed us to plan for additional product lines and business activities to further increase our sales and profits.

FISCAL YEAR-END CHANGED

Formerly, the fiscal year-end for the subsidiary companies of AHED was April 30, as shown in the prospectus.

To coincide better with the financial planning for our operational year, your directors decided to change the year-end to November 30. This was the audit date for the acquisition of the Arc group of companies by AHED. The next fiscal report will be as of November 30, 1969.

HOW YOUR MONEY IS BEING INVESTED

Recording Studio Expanded

From public financing, the company acquired new recording equipment, including an 8-track Scully tape recorder, which has enabled our engineers to make our recording studio equal or better than any similar studio in North America. As a result, we believe your company's recording program will be greatly enhanced.

Arc-Produced Artist Signed to MCA for World Distribution

We already have produced one master recording using the new studio facilities, the rights of which have been leased to Music Corporation of America (MCA) for world distribution on a contract basis calling for a potential investment of up to \$250,000 by MCA during the next five years.

- We will earn substantial royalties on all records sold after production costs are reclaimed.
- We also will own many of the copyrights used on the albums resulting in further royalties.
- We control management rights on the artist.

The artist, Terry Black, will be released under the stage name "Terence". The first LP record recording is scheduled for release in August.

Estimated potential net revenue could exceed \$1,000,000 during the next five years.

Million-Seller David Clayton Thomas an Arc Discovery

We are pleased to announce that we have made an arrangement with Columbia Broadcasting System (CBS) to record David Clayton Thomas as the lead singer in the current hit recording group "Blood Sweat & Tears".

This negotiation began last fall and since Thomas joined the group it has made a one-million seller album and two million-seller hit singles. The second hit single, "SPINNING WHEEL", was a No. 1 hit in Canada and in the Top 10 in the United States.

We are co-publishers of this song through Bay Music Co. Ltd. and have agreed to co-publish other David Clayton Thomas original songs with the CBS subsidiary publisher, April-Blackwood Music.

We anticipate substantial earnings from both recordings and music copyrights from this artist during the next several years.

Other Potential Hit Artists Signed

We have signed an exclusive recording contract with Gordon Pinsent who most of you will recall was the star of the Quentin Durgens CBC-TV show before his recent move to Hollywood.

We have produced a contemporary album of folk songs from his home province of Newfoundland. We anticipate wide radio play and consumer acceptance across Canada as well as considerable interest in the U.S. market where Gordon is becoming well established.

We also have signed an exclusive recording contract with Vanda King who will star in the forthcoming CTV "Diamond Lil" show. We will have a Diamond Lil album ready for release when the TV show makes its debut this fall.

Album projects also are under way with Catherine McKinnon, Harry Hibbs, Jay Jackson, The Majestics, Eric Robertson, and Ronnie Hawkins.

A group established by Arc on record, "The Esso Trinidad Steelband", now known as "The Trinidad Tripoli Steelband", has been signed to tour in the United States and internationally with Liberace.

This group received rave reviews throughout its recent U.S. tour with Liberace and we are getting a substantial demand for its LP recordings from the United States.

Some U.S. entertainment reviewers are predicting that the group will be the next musical sensation. Arc has an exclusive recording contract with the "Trinidad Tripoli Steelband".

Developing Canadian Talent a Major Objective

While waiting for the Canadian Radio Television Commission to regulate radio and TV programming to be "predominantly Canadian resources", as quoted from the new Broadcast Act, we believe that the best in potential earnings for your company from Canadian recording artists is to produce masters for distribution through large international recording corporations and establish the artist outside of Canada first.

We will, of course, continue to develop new artists in Canada through our impulse-priced LP record series.

At the same time, I have been sending briefs to the CRTC and presented a brief at the recent public hearings on FM radio broadcasting, asking for at least 25% of broadcasting time each hour to be devoted to Canadian-produced music.

It has been my belief for many years, that with the support of the radio and TV stations, our own Canadian artists could achieve recognition, fame, and substantial earnings within Canada.

The present policy of broadcasters featuring Canadian artists who have moved out of the country and are recording in the United States and England is merely encouraging the "talent drain" to these countries.

Many in the entertainment industry state openly that a strong Canadian content ruling